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23 January 2013
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VIA E-MAIL & U.S. MAIL

The Honorable Mark Lawrence
Hearing Examiner
Delaware Public Service Commission
861 Silver Lake Blvd.,
Cannon Building, Ste. 100
Dover, DE 19904

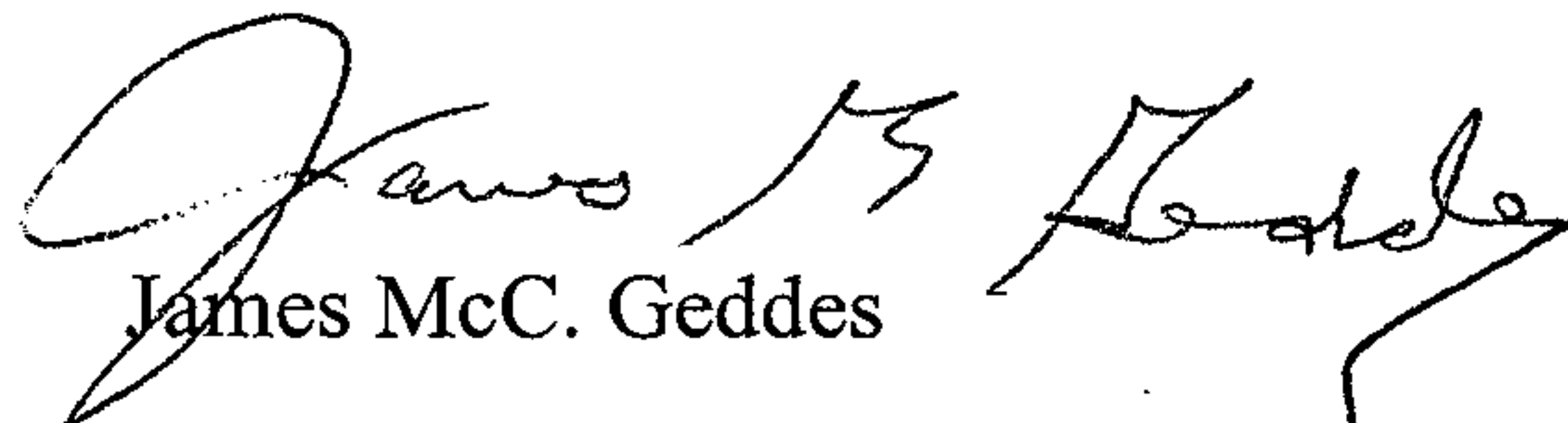
Re: *In The Matter Of The Application of Chesapeake Utilities Corporation
For Approval of Natural Gas Expansion Service Offerings
PSC Docket No. 12-292*

Dear Mr. Hearing Examiner:

Attached please find Staff's Comments in the above-captioned matter.

Please contact the undersigned if you have any questions or concerns.

Respectfully submitted,


James McC. Geddes

Attachment

JMcCG:dlb

CC: Service List (via e-mail; w/attachment)

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)	
CHESAPEAKE UTILITIES CORPORATION FOR)	
APPROVAL OF NATURAL GAS EXPANSION)	PSC DOCKET NO. 12-292
SERVICE OFFERINGS)	
(FILED JUNE 25, 2012))	

COMMENTS OF THE COMMISSION STAFF

BACKGROUND

1. On June 25, 2012, Chesapeake Utilities Corporation (“Chesapeake” or the “Company”) filed an Application with the Delaware Public Service Commission (the “Commission”) proposing new rates and offerings to facilitate the expansion of natural gas service, primarily in southeastern Sussex County, Delaware. In its Application, Chesapeake suggests that its existing tariff provisions hinder its ability to extend service to a large group of customers and should be modified. (*See*, Application, para. 6).

2. On July 3, 2012, the Commission issued Order No. 8174 that suspended the rates and revised tariff sheets filed by the Company, directed the Company to issue a public notice regarding the matter, assigned the matter to Hearing Examiner Mark Lawrence, and set a deadline for filing petitions to intervene by August 10, 2012. Intervention was granted to Division of Public Advocate (“DPA”), Department of Natural Resources and Environmental Control (“DNREC”), Delaware Association of Alternative Energy Providers, Inc. (“DAAEP”), Delmarva Power & Light Company (“Delmarva” or “DP&L”), Caesar Rodney Institute (“CRI”).

3. With approval from Hearing Examiner Lawrence, the parties circulated informal discovery in July and September 2012 to the Company regarding the Application and the development of the rates. A Pre-Hearing Conference was scheduled for September 27, 2012; however the Company advised due to its limited available personnel it would be unable to completely respond to the informal discovery requests and requested additional time to respond. As a result, the parties met for a Pre-Hearing Conference on October 15, 2012 to discuss the Application and to seek clarification from the Company on responses to some of the informal discovery. It was agreed to by all of the parties that some additional discovery would be asked and that the parties would hold a conference call on November 19, 2012 to clarify and follow up on any additional discovery questions. The parties also agreed to issue position papers by November 30, 2012, and to hold a workshop on December 10, 2012 to discuss the various position papers.

4. On December 20, 2012, Chesapeake filed a Proposed Settlement Position (“PSP”) to address positions taken by the various parties and to try and resolve all of the outstanding issues discussed as part of the workshop process. Follow-up comments were scheduled for January 4, 2013. In its follow-up comments, Staff indicated that it did not think additional workshops would be helpful given that the parties were still very far apart on some issues; the DPA moved to close the docket.

STAFF’S POSITION

5. Staff, like all the participants in this docket, supports the expansion of natural gas service into areas of Sussex County that currently do not have such service. However, Staff’s support for the expansion of natural gas service in the State must be

tempered by the over arching regulatory principle that customers who want that service must pay for it at just and reasonable prices. Proposals that rest on the economics of other customers subsidizing the cost of such expansion are not ones that Staff can support.

6. The issues raised in this Application are not new, nor is Staff's objection to having Chesapeake's entire customer base support such expansions of service. As pointed out by DAAEP in its Petition to Intervene in this docket, the expansion of natural gas service in Sussex County has been before the Commission in one form or another since 1997. (*See*, Petition, para. 4). As a result of a settlement in PSC Docket No. 07-186 ("In the Matter of the Application of Chesapeake Utilities Corporation for an Increase in its Natural Gas Rates and Services, and for Approval of Certain Other Changes to its Natural Gas Tariff"), certain expansion-related tariff provisions that Chesapeake now seeks to revise were established. The 2008 Settlement was the product of extensive discussions between the parties held during the time scheduled for evidentiary hearings on Chesapeake's rate application. One provision developed from those extensive discussions was the Experimental Area Extension Program ("AEP"), which according to the Company, it has never used as a method to expand gas service in Sussex County. Other provisions worked out in the prior settlement -- such as the six times revenue test for main extensions -- the Company now believes to be "not sufficient going forward." (*See*, Tietbohl Testimony, Chesapeake Application, p.27).

7. Despite continuing objections from various parties that Chesapeake's proposed rates should cover costs and avoid inter-class subsidies, the Company comments that its proposed Infrastructure Expansion Service "IES" rate is intended to

recover “future” costs that will be incurred in extending lines to new customers, and that the rate making principles such as test year and cost of service “cannot be effectively applied to the proposed expansion area.” (*See*, PSP, p.2). Staff cannot support rates that are not cost based or favor one class of customers over another. Accordingly, although Staff supports the expansion of gas service in Sussex County, it cannot agree to support the approach that the Company has articulated in its Application to achieve that goal.

8. This is the Company’s application – it chose to file it and the Company and parties agreed to review it informally prior to scheduling formal evidentiary hearings to determine whether there might be a consensus for a path forward. At the conclusion of the meetings, the parties have not come -- nor are likely to come -- to any resolution on some of the fundamental issues underlying the filing. In response to this imbroglio, the DPA has moved to close the docket. DPA’s motion to close the docket is based on three premises. The DPA points out that the Company’s application does not address the use of the Experimental Area Extension Program currently in the tariff; the application is effectively a single issue rate proceeding; and the filing requires customer subsidization. Staff believes that it is up to the Company to decide which direction it wants to go -- withdrawal of the Application or push forward with formal hearings. (*See*, Staff’s Jan 4th Comments).

CONCLUSION

9. The Company proposed IES rate for customers in the new expansion areas has no cost of service study to determine if the amount is adequate or necessary; rather it relies on “future” forecasts. In addition to the IES rate, the proposed Distribution Expansion Service (“DES”) rate would result in additional revenue being collected

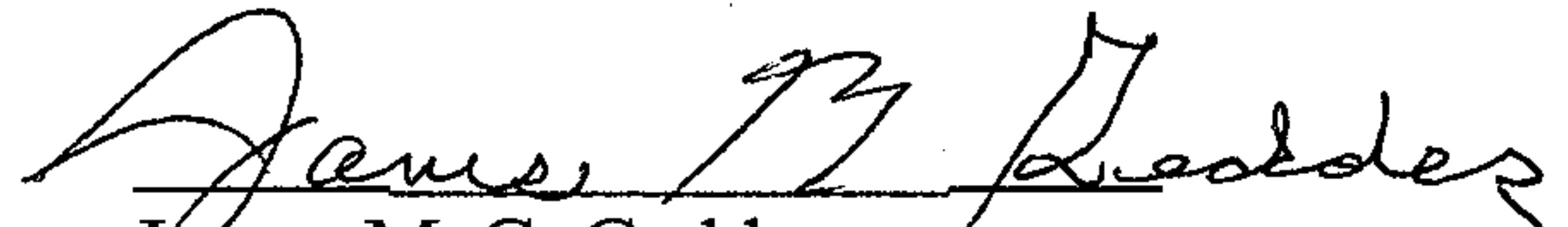
annually from all customers -- those who benefit from the expansion service and those who do not -- with no end date. The proposed modifications to the Main Extension tariff will reduce the obligations the Company currently has to install service lines. The proposed conversion finance service has the potential to increase bad debt expense, which if incurred would ultimately shift the costs associated with it to the Company's other ratepayers through higher rates. The risk for recovery of infrastructure associated with extensions would also be shifted to all ratepayers as part of a future base rate proceeding should build out and or payback not occur as estimated by the Company.

10. While Staff takes no formal position on the DPA's motion to close, Staff does suggest that the Company start its expansion effort on a smaller scale utilizing the Experimental Area Extension Program ("AEP") provisions outlined in the Company's existing tariff. The AEP provisions have not been utilized since becoming effective in 2008. If the proposed rate schedules were to be implemented, Staff would have concerns with ratepayer subsidization. Specifically, as this expansion effort appears to be partly funded using money collected from the entire customer base it indicates that expansion of natural gas service is not feasible without a contribution from the entire customer base.

11. With the uncertainty of how these rates were developed, no proposed time line of how long these proposed rates would remain in effect and no cost of service study completed to determine whether or not the amounts are adequate or necessary, Staff cannot support placing all the inherent risks associated with the Company's proposal on ratepayers. Staff feels that it would be more appropriate to include these proposed rates in the Company's next base rate filing as part of an overall cost of service study, which

can be reviewed in the context of the Company's overall rate of return and rate design,
and would allow for consideration of other funding sources such as long term debt.

Respectfully submitted,



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Rate Counsel

Dated: January 23, 2013